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Brisbane Australia

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Demir, Robert, Wennberg, Karl, & McKelvie, Alexander
(2016)

ACE research vignette 055: The strategic management of high-growth firms.

ACE Vignette, 055.

Queensland University of Technology, Brisbane, Qld.

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ACE Research Vignette #55: The Strategic Management of High-Growth Firms

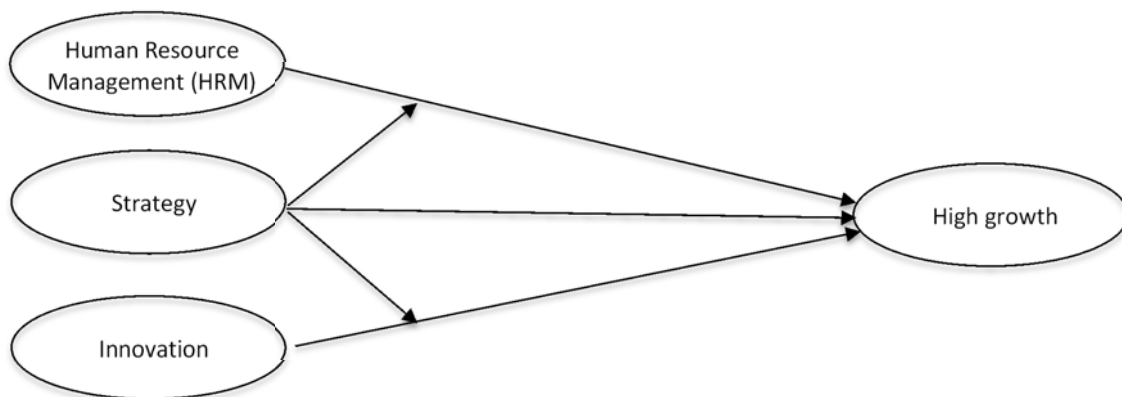
This series of research vignettes is aimed at sharing current and interesting research findings on entrepreneurship. This vignette examines the strategic factors driving high growth. It is written by Dr **Robert Demir**, Lancaster University Management School (UK) and the Ratio Institute (Sweden), Professor **Karl Wennberg**, Institute of Analytical Sociology (IAS) at Linköping University and the Ratio Institute (Sweden), and Dr **Alexander McKelvie**, Syracuse University (USA).

Background and Research Question

High-growth firms (HGFs) are commonly defined by their high growth in sales, employees, or productivity. Research has established that the strategic management of HGFs is a unique and important challenge, yet many questions remain unresolved. Perhaps the most pressing question is: *What strategies and managerial factors facilitate the development of HGFs and their continued growth?* In the research underlying this vignette, we review the scholarly work from the last 30 years on HGFs, synthesize these fragmented insights into a combined model, and outline the individual and combined importance of five key factors for high growth.

How was this investigated?

We report findings from a review of scholarly studies of HGFs published in high-ranking academic journals in management, entrepreneurship, or innovation. We focused the review on 39 articles that met our criteria for papers published in the most prominent journals in these fields. We carefully read and coded each study in two steps, one descriptive and one analytical. The coding yielded five factors leading to high growth, each with a distinctive theoretical domain: human capital, strategy, human resource management (HRM), innovation, and capabilities. To make the best use of limited space we focus this research vignette on the three most actionable factors: Strategy, HRM, and Innovation. The below figure summarizes the study's focus as well as its main findings.



Findings

Strategy. Our review shows that an HGF's strategy has a direct effect on high growth as well as indirect effects by influencing how HRM and innovation impacts high growth. Two strategies have a pertinent relationship with high growth. Firstly, studies in the US and other countries show that HGFs had well-developed *strategic planning*, reflected in business



plans (including assumption testing), competitive analysis, resource-allocation planning, and routines for control and coordination. HGFs tend to “think big” and are better prepared for adapting their operations in production and marketing than moderate to slow-growth firms. However, the literature also reveals that strategic planning and forecasting problems tend to compound in HGFs, indicating the need for flexible routines and process-performance adjustments along with standardized planning cycles. Second, our review reveals that HGFs employ a *differentiation strategy*, making distinctive product/market choices. Unlike low growth firms, larger HGFs avoid a single-product strategy and instead develop a portfolio of products sold in several markets. Notably, HGFs tend to use new technology for “carving out” new market segments and hence grow rapidly. Further, HGFs tend to engage in product refinement and specialization strategies and market exploration strategies rather than market exploitation strategies. This further implies that HGFs have a limited but technologically advanced product portfolio through which they exploit new markets.

HRM. HGFs abnormal need to recruit new employees in a short timeframe poses serious challenges. Our review raises several key questions regarding HRM practices in general, specifically HRM practices related to employee selection, training, and incentive compensation and their relationship with high growth. First, employee selection in HGFs is significantly dependent on the firms’ growth ambitions and how new recruits ‘fit’ the firm. Second, firms with an emphasis on employee training and development tend to enjoy positive returns in terms of high growth. Third, several studies in our review highlighted the importance of employee incentive systems to realize high growth, although some studies suggest that poorly designed incentive programs may have adverse effects for HGFs.

Innovation. An important feature of HGFs is the role of innovation. Since HGF’s are found in both high and low tech industries, the nature of innovation may differ. In industries close to the technological frontier, the source of innovation is R&D spending and patents leading to new products that help promote growth. In other industries, process innovation and creative, proactive market strategies are important drivers of high growth. In these cases, many HGFs use their innovative skills to enhance or create new markets rather than compete for fixed-size markets. Therefore, understanding the role of innovation and how it matches the HGFs strategy and industry are important for understanding HGFs.

Business and Policy Advice

What should managers with high growth ambitions pay attention to about strategies, HRM practices, and innovation? When trying to apply the research findings reported above, our advice is to pay particular attention to the interplay among strategy, innovation and HRM practices with other practices and activities. For example, while product specialization might effectively help young HGFs grow rapidly, at some point most firms become victims of their own core competencies when new competing technologies evolve outside their domain of attention. This tendency urges HGFs to develop sound HRM practices for recruitment and training. This prompts the need for developing effective incentive programs in HGFs. Our review suggests that effects of incentive systems depend on the type of ownership. This, in turn, prompts the need for different incentive systems that increase the commitment of both employees and managers to the goals of rapid growth. In this spirit of paying closer attention to soft aspect of managing HGFs, we see a specific need for HGFs to develop capabilities for exploring opportunities for innovation in areas such as services, managerial practices, and business processes. One such way is to engage in a variety of communities, including customers, policy makers, universities, and other influential actors who might inspire HGFs to innovate in domains that help them sustain their growth trajectory.

Learn more and get the full story from: Demir, R., Wennberg, K. & McKelvie, A. (Forthcoming). The strategic management of high-growth firms: A review and theoretical conceptualization. *Long Range Planning*. Prior to publication a version is available [here](http://ratio.se/app/uploads/2016/09/rd_kw_am_strategic_management_of_hgfs_273.pdf): ratio.se/app/uploads/2016/09/rd_kw_am_strategic_management_of_hgfs_273.pdf.